



## **Library of Development Indicators for PEF**

### **5 Memo to GPs interested to work with Internatinal Finance Institutions (IFI):**

What are the development effects/impacts of private equity funds in emerging markets and developing countries? Can private equity funds make life better for people in emerging markets? International Finance Institutions (IFI) more and more often hear such questions from their shareholders, board members or stakeholders. The questions are of obvious interest to IFIs who, invest as LPs out of development mandates, but they are also increasingly important for emerging market GPs. Media criticism and government opposition in developing countries illustrate the risks that private equity fund managers face if their activities are not understood to benefit local economy and population.

There are more than 100 indicators with various definitions used to assess development effects of PEF. Therefore, the IFI working group Private Equity Funds has agreed upon a set of Development Indicators (DI) which reflects discussions of annual working group meetings. This set builds a library of core and optional DI with common definitions and consistent tracking methods.

The library of DI serves the following goals:

1. Support fund managers (who are not development economists by vocation) to track positive development effects of their PEF,
2. Harmonize the IFI assessment of development effects of PEF and create synergy effects in multiple bottom line operations
3. Create data-bases with a fair degree of integrity as data points would be calculated according to a harmonized calculation methodology.

As there is a broad diversity of PEF (e.g. infrastructure funds, SME funds or general venture capital funds) as well as IFI missions, a focus a “one size fits all”-principle is hardly achievable. Therefore, the following list highlights four “core DI” – IRR, employment, environment standards and labour standards – which should be used for any PEF transaction on an annual reporting basis.

The “optional DI” can be used on a discretionary basis by each IFI.

The DI library will be published at EMPEAs web page “research & surveys”. The DI library may be reviewed and adapted by the IFI working group PEF after a test phase and review of experience.

35 Please direct observations or comments in using the DI to:

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## Library of Development Indicators for PEF

	Development Indicator	Format	Definition
<b>1</b>	<b>Core DI</b>		
1.1	<b>IRR - internal rate of return</b>	<i>Numerical + basic calculation hypotheses</i>	The rate of discount for which the present value of the <b>net</b> revenue stream becomes zero, or at which the present value of the revenue stream is equal to the present value of the cost stream. It can be compared with the opportunity cost of capital
1.2	<b>Employment (indirect) at investee companies</b>	<i>Numerical + Qualitative (if necessary)</i>	(i) Number of jobs existing and sustained in investee companies, (ii) net employment creation in the year of reporting (if possible by gender & type)
1.3	<b>Compliance with IFI Environmental and Social Standards</b>	<i>Yes/No</i>	A clear statement that the project complies with international environmental and social standards and the specific requirements of the involved IFIs (which should be part of the normal contractual requirements).
1.4	<b>Compliance with Core Labour Standards</b>	<i>Yes/No</i>	A clear statement that the project complies with International Labor Organisation (ILO) Core Labor Standards and relevant national commitments
<b>2</b>	<b>Optional DI</b>		
	<b>Economic Indicators</b>		

2.1	<b>Linkages Employment Impact</b>	<i>Numerical + Qualitative</i>	Estimation of number of jobs sustained in indirect employment impact at the value chain / linkages of the investee companies to local suppliers or customer companies
2.2	<b>Technology Transfer</b>	<i>Numerical or Qualitative</i>	Expenses in technology or a qualitative judgement in terms of the sharing of knowledge impact and facilities as a result of the realised project.
2.3	<b>Training</b>	<i>Numerical + Qualitative (if necessary)</i>	The training budget associated (directly or indirectly) with this investment and the numbers of people receiving training, and type of training provided. (Or - average hours of training per year by employee & category of employee)
2.4	<b>Net Currency Effects</b>	<i>Numerical or Qualitative</i>	Percentage of exports/imports in sales/purchases or other numerical indicators which could assess the level of contribution to the national balance of payment contributed by the investee companies.
2.5	<b>Diversification of the Local Economy</b>	<i>Qualitative</i>	A qualitative assessment of the diversification impact (if any) of the project to the local economy, e.g. fund investments in underserved sectors or regions of the country (e.g. unemployment rate or poverty rate as indicators of low development).
<b>Environmental Indicators</b>			
2.6	<b>Compliance with National Environmental Standards</b>	<i>Yes/No</i>	A clear statement that the project complies with all relevant national environmental standards and legislation.
2.7	<b>Environmental Management Certificates</b>	<i>Names</i>	Reporting of any environmental management certificate (e.g. ISO, EMAS, generation of carbon credits, etc).
2.8	<b>Technical Assistance</b>	<i>Qualitative</i>	Reporting of any environmental related technical assistance (either national or international) received in the context of this project.
<b>Social Indicators</b>			
2.9	<b>Impact on local poverty alleviation</b>	<i>Qualitative</i>	Although this is very difficult to measure, the fund manager should have the freedom to express his understanding on how his projects impact on local poverty alleviation (e.g. contribution to Millennium Development Goal # 1 "reduction of poverty" by creating jobs for unskilled employees).
2.10	<b>Outreach Transparency &amp; Accountability</b>	<i>Qualitative</i>	Interaction with shareholders & stakeholders about risks & opportunities
2.11	<b>Impact on Gender, Minorities or Disadvantaged Groups</b>	<i>Qualitative</i>	The fund manager should report on any potential controversial issues or proactive positive approach taken with respect to these issues.

2.12	<b>Labour Practices &amp; Decent Work</b>	<i>Qualitative</i>	Policies & Procedures for informing, consulting & negotiating with employees, ensuring occupational health & safety in line with e.g. the Basic Terms and Conditions of Employment of ILO, tackling major communicable diseases (malaria, TB, AIDS)
<b>Governance/Institutional Indicators</b>			
2.12	<b>Dealing with Human Rights</b>	<i>Qualitative</i>	Policies & procedures for dealing with human rights issues
2.13	<b>Development of Global Reporting System</b>	<i>Yes/No</i>	Is the promoter developing appropriate development accounting systems to account for increasing transparency and accountability (e.g. UNEP FI reporting requirements, EMAS, ISO, etc).
<b>Capital Market Development and Financial Sector Indicators at PEF level</b>			
2.14	<b>Mobilisation of local capital</b>	<i>Yes/No; qualitative comments</i>	The PEF should report how other financial resources are mobilized e.g. (i) investments by local investors or (ii) additional funding from local banks.
2.15	<b>Diversification of the financial sector</b>	<i>Yes/No; qualitative comments</i>	The PEF should report how the fund contributes to the diversification of the financial sector in the country/region or contributed to an improvement of the regulatory framework ("deepening" by new type/instrument in local market, e.g. one of the first SME-funds, energy efficiency fund, mezzanine fund, or fund with majority shareholding strategy in the local market).
2.16	<b>Diversification of equity allocation</b>	<i>Yes/No; qualitative comments</i>	The PEF provides finance to business segments or regions ("frontier regions") which have so far not or only insufficiently been serviced by the existing finance institutes (e.g. because the segment has so far been categorized as "unbankable", IT, telecommunication, renewable energy, SME/Micro, empowerment of disadvantaged groups like BEE, or the region has been categorized as "underdeveloped", etc.) ("broadening of the financial sector").
2.17	<b>Institution building by PEF</b>	<i>Yes/No; qualitative comments</i>	The PEF should report how a contribution of the fund to local company development and structure-building effects were generated (e.g. "added value function" by consultancy and technical support for investee company upgrading; e.g. Environmental and Social Management System (ESMS) at fund-management-level).

2.18	<b>Employment Creation (direct) at PEF management company</b>	<i>Numerical + Qualitative (if necessary)</i>	PEF managing companies create high skilled professional jobs in a locally small financial community. The larger number of trained experts contribute to a development of the PEF industry. The PEF should report on the (i) Number of jobs existing and sustained in fund management company, including qualitative aspects like job type & gender
<b>Private Enterprise Sector Indicators at investee company level</b>			
2.19	<b>Improvement of accounting and reporting</b>	<i>Yes/No; qualitative comments</i>	The PEF should report how improvement of accounting and reporting standards and practice of local company (e.g. IAS or US-GAAP).
2.20	<b>Improvement of Corporate Governance</b>	<i>Yes/No; qualitative comments</i>	The PEF should report how improvement of corporate governance and/or strategic guidance was achieved.